

**Testimony Given Before the U.S. House of Representatives Committee on Agriculture:
Subcommittee on General Farm Commodities and Risk Management
June 15, 2006**

Mr. Chairman, my name is Robert W. Parkerson. I serve as President of National Crop Insurance Services (NCIS), on whose behalf my testimony is presented today. I would like to thank the Subcommittee for the opportunity to present this testimony.

NATIONAL CROP INSURANCE SERVICES

NCIS is a nonprofit trade association whose member companies include every crop insurance company that participates in the federal crop insurance program. NCIS has worked actively with the Risk Management Agency (RMA) as an approved contractor and with the Board of the Federal Crop Insurance Corporation (FCIC) as an expert reviewer. We have received thirteen risk management education grants or research awards over the last several years and have served as expert reviewers on six projects.

NCIS is also a licensed statistical agent and advisory organization for Crop-Hail insurance in all required states, and assists the crop insurance industry in meeting the regulatory requirements of the individual states. This is accomplished by filing the appropriate material and statistical information with respective state insurance departments. Further, NCIS serves as liaison with individual state insurance departments through active participation with the National Association of Insurance Commissioners (NAIC).

In 2005, NCIS member companies wrote more than \$3.9 billion in MPCl and related revenue products premium and over \$434 million in private Crop-Hail insurance products premium. The potential liability under both programs was \$59 billion. The protection provided represents approximately 80 percent of the total acres planted to principal crops in the United States. NCIS member companies service policies that encompass all farmers participating in the federal and private programs, including limited resource and socially disadvantaged farmers. In partnership with the government, our participating member companies are the safety net that equitably provides risk management to the American farmer.

For those of us working in the crop insurance industry, our livelihoods depend on the integrity of this program. Without program integrity, farmers would not have the safety net they so richly deserve. We have all worked too hard and achieved too much to allow the slightest erosion of integrity to cause the downfall of this program.

The program's accomplishments—widespread participation, efficient, low cost delivery, and the continuing growth of the crop insurance program – must not be jeopardized by fraud, waste, and abuse.

A MATURE FEDERAL PROGRAM AND ITS CHALLENGES

We tend to forget that multiple peril crop insurance has reached a mature stage of development. Here are some fundamental facts that we often repeat:

- A very significant portion of insurable acres actually are covered, and this has been so for a number of years.
- On a fairly constant basis the MPCCI program has come to provide risk management protection against liability in excess of \$40 billion annually.
- The program's actuarial soundness has steadily improved under RMA's stewardship.
- The MPCCI program has evolved over the past decade so that now twenty two plans of insurance are available covering 110 crop policies.

These are convincing signs of a mature program.

With this level of maturity, it is time for some frank talk about challenges facing the MPCCI program. Those challenges center on enhancing program integrity. We want to offer our thoughts on internal and external avenues for improvement.

First, working together, RMA and the industry can strengthen internal operation of the Federal crop insurance program. Let me start by telling you what we can do, and have been doing, in the private sector. In one word, it is education. We believe that better knowledge of this complex program both improves program compliance and enhances vigilance. That is the reason NCIS,

on behalf of its member companies, is committed to a broad based and continuing education program to help combat fraud, waste, and abuse.

NCIS held a Program Integrity Conference on May 22-23, 2006, in Overland Park, Kansas. This conference centered on the crop insurance industry's ability to reduce fraud, waste, and abuse and how best to handle these issues in a growing and complex program. Senator Pat Roberts, RMA Administrator Eldon Gould, and Bert Little were key speakers at this conference. Over 100 people from the crop insurance industry attended this day-and-a-half long event. Representatives from the NAIC, the Federal Bureau of Investigation, the International Center for Ethics in Business, the USDA Office of Inspector General, NCIS, and crop insurance companies spoke on various issues dealing with fraud, waste, and abuse. We look forward to offering updated versions of this conference in 2007 and following years.

The private sector firmly believes that educational efforts can be key deterrents to fraud, waste, and abuse. The Federal crop insurance program is complex, and improving understanding of its terms and operation should help limit fraud, waste, and abuse. Everyone involved—our policyholders, agents, adjusters, RMA personnel, and company employees—all need to understand the program and recognize that their individual actions affect the integrity of the entire crop insurance program. On a whole, agents who sell crop insurance and loss adjusters who determine the amount of indemnities payable are honest and dedicated professionals. As a result of their dedication, America's farmers can be assured that program options will be accurately explained to them at time of purchase, and that losses will be adjusted fairly and accurately in the event of damage.

Moreover, through proper education, company employees, agents, and adjusters are becoming better equipped to recognize behavior outside the bounds of program compliance. Knowing this encourages agents, adjusters, and producers to behave in an ethical manner. The benefits of effective training are that errors can be avoided, that uniformity in adjusting losses can be increased, thus leading to higher confidence in the program, and that there will be appropriate discipline in those rare instances of intentional wrongdoing. Through effective training, industry and RMA can work together to improve the program.

The ever-growing complexity of the crop insurance program and the capacity of agents, adjusters, company personnel and even RMA to keep up with it continues to be a concern for many of us involved in the industry.

A mature program certainly does not mean that initiatives to develop innovative products should end. Nor does it mean that we should forget the need to be vigilant about the way existing products are operating. When we review existing products or consider new ones, however, we must be certain that two questions can be answered satisfactorily: (1) Does the product serve legitimate risk management objectives of America's farmers; and (2) does the product operate in a fashion that is consistent with the public interest? The second question means that, at the product development stage, it is essential to eliminate, or at least to limit radically, opportunities for fraud, waste, and abuse to arise. We must close potential loopholes and guard against distortion before products are introduced. Unquestionably, this is the duty of RMA, and we in the private sector can and should help.

The significance of this second question – is the product consistent with the public interest – can be illustrated by anticipated introduction of the “Combo Policy” in 2009. The goal is to have a product which helps simplify the program and makes it more user-friendly for the farmer. Getting this new product introduced is taking longer than anyone desired or anticipated. Rather than complaining about delays, however, we want to use introduction of this anticipated product to deal with program integrity issues. First, we hope that the extended internal review this product is receiving means that RMA is working hard to close any potential policy loopholes before publication of a proposed rule for public comment. Second, we hope that RMA also is taking this time to assure that this product, when introduced, will be accompanied by complete, meaningful handbooks for implementing it and adjusting losses. Third, it is imperative that, once a proposed rule is published, an ample period for public comment is provided. Fourth, the crop insurance industry and producer groups should offer probing and constructive comments. Finally, RMA needs to listen carefully to the comments offered by those who will sell and service the “Combo policy” and by those who will purchase it as an enhanced risk management tool. If these steps are followed, the final product should be relatively error free and should enhance program integrity and not call it into question. We look forward to working closely together with RMA during the implementation phase of the “Combo Policy.”

Two internal RMA personnel issues also are significant aspects of reducing fraud, waste, and abuse. First, RMA needs to have sufficient personnel to accomplish the tasks Congress has assigned to it. Second, RMA needs the resources to deal with the loss of institutional knowledge from staff retirements, including some anticipated in the next five to ten years. The ability to

replace these key individuals with skilled and knowledgeable personnel is critical, but we fear it may prove difficult for RMA.

RMA also must find better ways for dealing with external pressures for change. Changes made to existing policies and procedures are often driven by external pressures and made without adequately taking into account the timing of the changes, or the cost benefit or the risk impact changes may have on the program. As a result, changes of this nature frequently result in unintended consequences. RMA has kept the industry as well informed as possible, given its regulatory constraints, and we appreciate its willingness to do so. However, due to haste or extremely short comment periods, the private sector has often had little opportunity to provide input or analysis before some changes are released as final. It is difficult to make comments on or discuss an issue when all of the facts may not be known, or potential impacts have not been sufficiently thought through. This makes it difficult at times to work together. Examples of this type of situation include the Basic Provisions policy language dealing with prevented planting due to drought or failure of irrigation water supply and the 2005 Apple Crop Policy provisions. The 2006 Nursery Crop Provisions and the 2007 Florida Fruit Tree Crop Provisions are two current examples where it is still too soon to fully realize whether there may be any problems. Recently, NCIS sponsored a loss adjustment training school in Lake Mary, Florida, on the Nursery and Florida Fruit Tree policies in an effort to ensure that all adjusters are adequately trained regarding the extensive changes made to these policies. We believe these represent examples where external pressures have led or may lead to unwise program decisions. We must recognize that there are financial consequences and program integrity consequences when

external pressures result in a program change that has not withstood the normal rigors of development, review, and testing an insurance product requires.

The Agricultural Risk Protection Act of 2000 (ARPA) introduced important program integrity tools. One is data mining, and another is use of Farm Service Agency (FSA) resources in an effort to identify potential program abuse. We are believers in data mining, but our members have a common concern about its implementation – they do not receive critical information early enough to prevent or mitigate losses. Use of FSA resources has potential, but our members are not convinced this change materially has benefited the program, again because the companies often do not receive FSA's input in a timely fashion. We believe delayed receipt of FSA information unquestionably deprives insurance providers of data needed to deal proactively with program abusers. It is vitally important that RMA, FSA, and industry work together in the implementation of ARPA.

We want to offer some positive examples of the industry's efforts to work with RMA on program integrity issues and related concerns.

NCIS is in regular contact with Mr. Gould and his staff and we have worked diligently together to resolve issues as they arise in the program. Some of these have dealt directly with program vulnerabilities that, if not corrected, could lead to program abuse. NCIS worked with RMA in developing an SRA Appendix III Type 57 record system which will enable electronic transmission to RMA of SRA required company quality control activities. This process will help both RMA and the companies monitor and resolve quality control issues. Even though this

process has been successful, there are still some issues to be resolved. Certain review processes still take a random approach towards discovering program vulnerabilities. We believe data mining would be a useful tool to better target areas of weakness and complement the review processes as laid out in Appendix IV of the SRA and other FCIC approved procedural manuals. We want to sit down with RMA and follow up on discussions of processes and methods that would allow us all to all “work smarter.”

We believe the concepts and basic fundamentals that underlie AGR, AGR-Lite, GRP, and GRIP are an important part of this program and can fill a need for many farmers in the country. However, we do have some concerns with how they work. Recently, NCIS formed a workgroup of industry members that met to discuss many of the concerns associated with the AGR and AGR-Lite program. Currently, this workgroup is working with RMA in identification of areas of concern and with recommendations to strengthen the program. RMA has been working on issues in the GRP and GRIP programs and NCIS met with them to discuss our concerns related to these programs.

Finally, we must place in perspective examples of fraud, waste, and abuse. Fortunately, as Dr. Little explained to our program integrity conference at the end May, fraud in crop insurance is quite low, and is less than 1 % of total indemnities paid. This is very good, because it is noticeably less than what other property/casualty insurance lines experience. It means that advocates of a strong public-private partnership can confront their critics with the confidence of knowing that they sell, service, and manage agricultural risks in a superior fashion. This also

should permit all as to have the patience to allow improved educational efforts and better product development and review to work.

CONCLUDING REMARKS

Crop insurance is an effective risk management tool for growers to protect themselves. Growers must have confidence in the stability of the program and purchase adequate coverage. We and RMA fortunately can offer growers a financially sound and stable program.

As an industry we take seriously our responsibility to deliver the federal crop insurance program with integrity and fairness, and we have a long history of being proactive in addressing issues of fraud, waste, and abuse. We shall continue to be proactive.